IMF Outlook : India's Case

Why in news?

The recent edition of World Economic Outlook (half yearly report) has been published by International Monetary Fund (IMF).

What has the report projected?

- For India, the Fund has lowered the real GDP growth rate for 2021-22 to 9.5% from the earlier 12.5%.
- Its forecast for 2022-23 was 6.9% earlier and has been upgraded to 8.5%.
- For India, the medium-range forecasts is up to 2026-27.
- The report has cited that the global economic recovery momentum had weakened due to the pandemic-induced supply disruptions.
- The dangerous divergence in economic prospects which is due to large disparities in vaccine access, and differences in policy support remains a major concern.
- The IMF has become relatively more pessimistic on the Indian rupee versus US dollar (USD) in October.
- It has also noted that the employment growth likely to lag the output recovery

What explains the IMF's turn for pessimism on the Indian rupee?

- The IMF sees the rupee depreciating from Rs.70.9 to Rs.89.4 in 2020-21 against the US dollar by 2026-27.
- In April, the implied exchange rate forecast for 2026-27 was Rs.85.8.
- So, the US dollar is stronger by 4.2% at the end of 2026-27 as per the October 2021 forecast.
- This will lower India's nominal GDP in USD terms in 2026-27 to $140 billion.

Why recovery in employment may lag the recovery in GDP?

- Employment around the world remains below its pre-pandemic levels due to

    - Reflecting a mix of negative output gaps
    - Worker fears of on-the-job infection in contact-intensive occupations,
    - Childcare constraints
    - Labor demand changes as automation picks up in some sectors
    - Frictions in job searches and matching
- The employment lag output growth in India might be due to the already existing massive unemployment crisis and informal or unorganised sectors
- The gap between recovery in output and employment is likely to be larger in emerging markets and developing economies than in advanced economies.
- Also young and low-skilled workers are likely to be worse off than prime-age and high-skilled workers, respectively.

What does the IMF call for?

- The top priority is to vaccinate at least 40% of the population of every country by the year-end and 70% by the middle of next year.
- The IMF called for stronger commitments at the United Nations COP26 in Glasgow and said advanced economies needed to deliver on their $100-billion-per-year international climate finance pledge to developing countries.
- It has asked the Group of Twenty (G20) to speed up the restructuring of unsustainable debt of poorer countries.
- The IMF has earlier cited that there's still room for the Government of India to provide more support without disturbing the fiscal deficit.
- There need to be a credible medium-term strategy for India to reduce the debt-to-GDP ratio to make room for future development and infrastructure needs.

References

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